

C. Housing Issues in the Bay Area

The Regional Housing Crisis

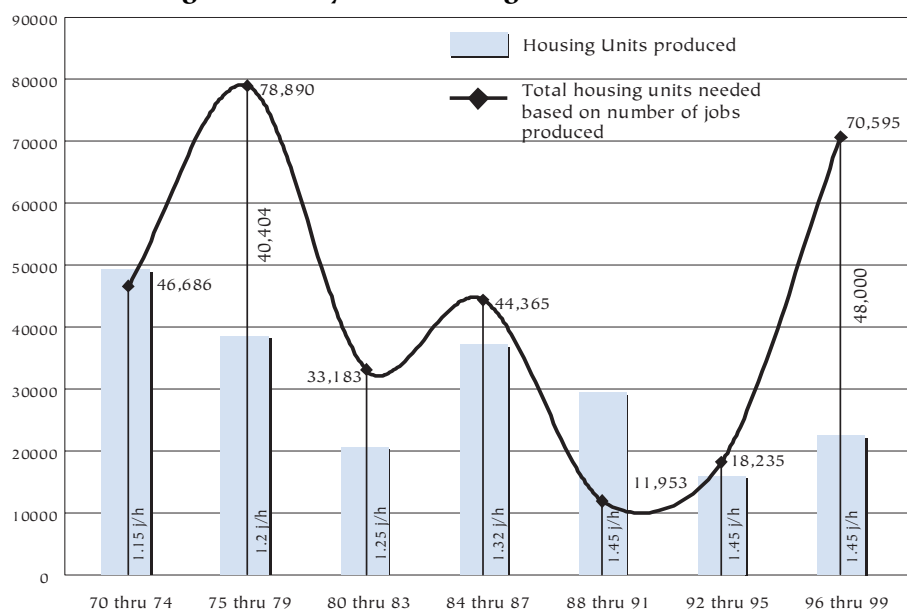
The Bay Area is in the midst of a housing crisis, with housing affordability at an all-time low. Recent estimates indicate that only 16 percent of Bay Area households can afford a median priced home in the region, with affordability dropping to as low as 12 percent in Contra Costa and San Mateo Counties and 10 percent in San Francisco (California Association of Realtors, July 2000). It is expected that this housing crisis will have long-term economic repercussions and significant impacts on the quality of life as the region's roadways are clogged with workers traveling increasingly longer distances to get to work.

One reason for the housing crisis is that housing growth has not kept pace with job growth. Between the years 1990 and 2000, the Bay Area produced nearly 500,000 new jobs but less than 200,000 housing units. The jobs/housing imbalance is particularly striking in job-rich centers such as northwest Santa Clara County where nine jobs were produced for every new home built in the 1990s.

Further exacerbating matters is the type of housing stock being created. Nearly two-thirds of the Bay Area's current housing stock is single-family. The severe lack of multi-family housing development in most communities has resulted in large numbers of people not being able to afford housing in the areas where they work. This includes older residents, younger families and other segments of the population searching for affordable housing.

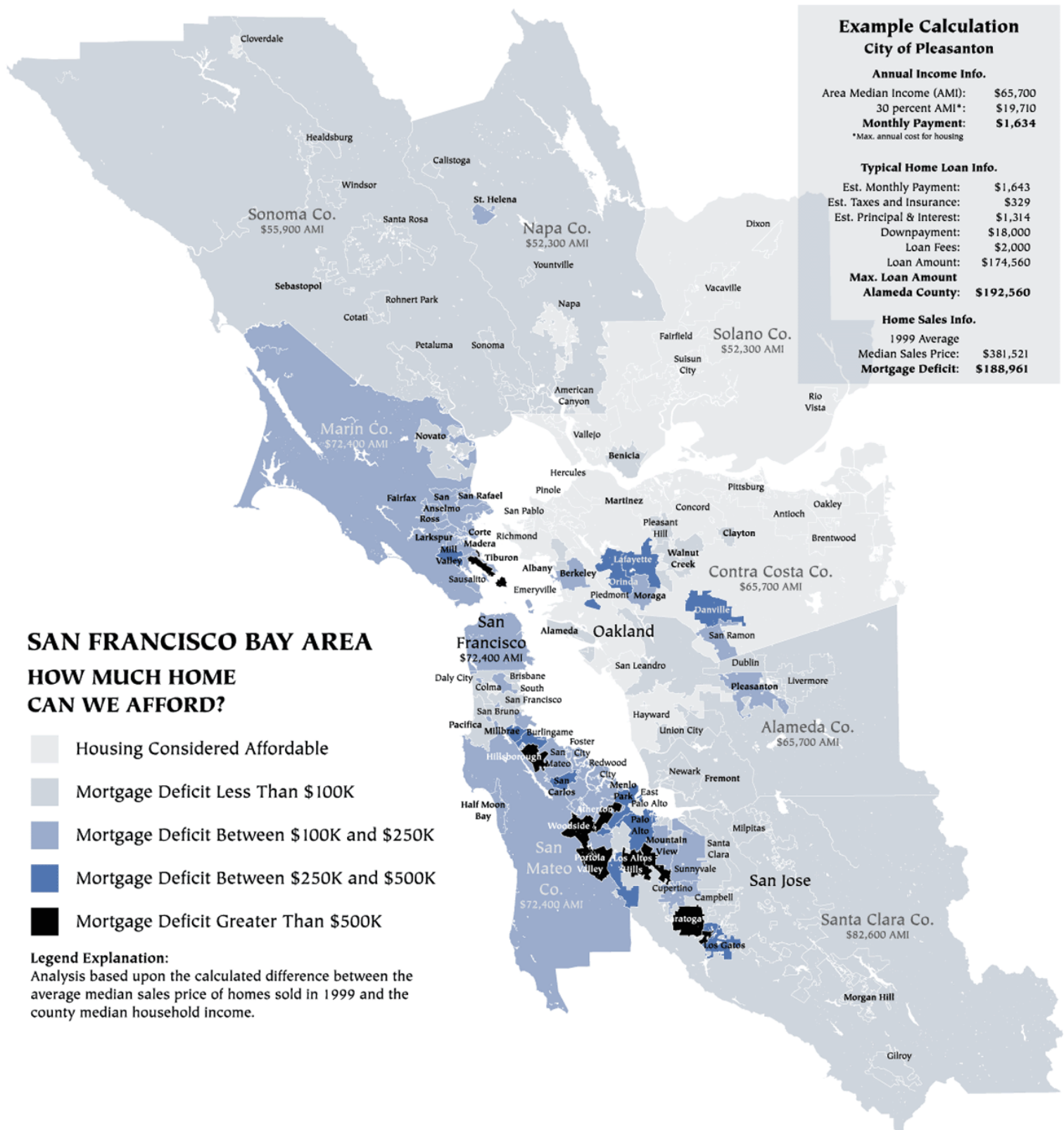
Another major factor contributing to the lag in housing production is local policies related to land use and development. While few communities have sought to limit job growth, many jurisdictions have limited residential development, favoring non-residential uses over residential uses or establishing low-density limits on residential lands. It can be said that the cumulative impact of land use policies and development decisions aimed at protecting the quality of life for the region's residents has actually had an opposite effect. It has increased housing costs by limiting housing availability, as well as produced more sprawl, traffic congestion and a lower quality of life for many of the region's residents.

Figure 10. Bay Area Housing Production vs. Need



Source: March 2000, Department of Finance, ABAG

Figure 11.



Costs of Under-producing Housing

The costs of under-producing housing are many and range from higher housing cost burdens and disproportionate impacts on lower-income renters to increases in overcrowding and commute times.

High Housing Cost Burdens

Under-producing housing creates a supply-constrained housing market, which contributes to steep increases in housing prices and rents. According to DOF estimates, median home prices in the Bay Area rose 28 percent between December 1999 and December 2000. Data on average home prices between December 1998 and 1999 from the California Association of Realtors shows similar increases, with some cities in the region recording increases of over 45 percent. While median household incomes in the Bay Area are higher than many metropolitan areas in California, they are not high enough to keep pace with rising housing costs.

Another result of the housing cost burden is that a large number of Bay Area residents consistently devote a higher percentage of their income to housing. While median housing cost burden for all homeowners in metropolitan areas across the US was about 17 percent of household income in 1995, cost burdens for owners in San Francisco/Oakland was about

22 percent with San Jose being one percentage point higher. First time homeowners and recent new comers to San Francisco/Oakland and San Jose had even higher median cost burdens at 31 percent (HCD, 2000). Homeownership rates for these jurisdictions are also lower than the US average of 65 percent: 55 percent for San Francisco/Oakland and 59 percent for San Jose in 1995.

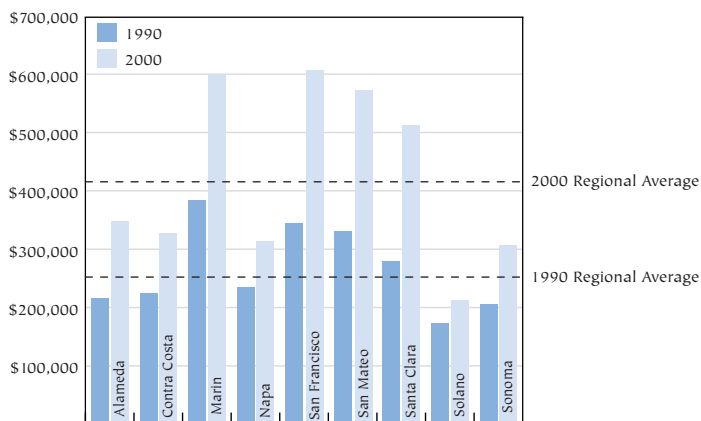
A study of housing markets across the state for the period 1995-1997 (HCD, 2000) shows that average rents rose at almost double the rate of growth in average home prices. For the two year period of 1995-1997, the average percentage change in home prices was 5.35 percent for the Bay Area, substantially lower than the 12.9 percent change in average rents for the same period. Santa Clara County had the highest increases, both in home prices (11 percent) and average rents (27 percent).

Disproportionate Impacts on Lower Income Renters

Within the rental market, the burden of high housing costs falls disproportionately on low and very-low income renters. In 1995, about three-fourths of California's very-low income renters paid more than half their income for rent in comparison to about a third amongst all renters across the state. Low-income households are defined as those earning 80 percent and below county-median household incomes, while very-low income households are those with incomes less than 50 percent of county-median household income (HCD, 2000).

More recently, the US Department of Housing and Urban Development (HUD) estimated that monthly Fair Market Rents (FMR), for a two-bedroom unit, are between \$857 in Solano and Napa Counties, and \$1,154 in Marin, San Francisco and San Mateo counties. Compared to the Statewide average of \$791, the Bay Area significantly stands out.

Figure 12. 1990-2000 Average Prices for New and Existing Homes by County



Chapter 1

To afford these rental prices, a lower-income family of four in Solano and Napa Counties would be paying almost two-thirds of their income towards housing costs while families in Marin, San Francisco and San Mateo Counties would typically pay about 75 percent of their income towards rent for a two bedroom unit. At these costs, more than half of all renters are unable to afford FMRs (National Low Income Housing Coalition (NLIHC), 2000).

A further calculation showed that renters would need to earn an hourly wage between \$16.50 (Napa and Solano Counties) and \$38.50 (San Francisco, Marin and San Mateo counties) to afford FMRs for two bedroom units. If California minimum wages of \$5.75 per hour were taken into consideration, families in Solano and Napa would typically have to work a minimum of 115 hours per week, while those living in Marin, San Francisco and San Mateo would put in 195 hours of work per week to afford a two-bedroom unit at fair market rents. Simply put, lower-income residents in the Bay Area, whose median household incomes in 2000 ranged between \$32,870 in Solano County to \$53,463 in San Francisco cannot afford to live in the places where they work (NLIHC, 2000).

Table 1. Estimated Number of Renters Unable to Afford Fair Market Rent

County	One Bedroom	Two Bedrooms	Three Bedrooms
Alameda	38%	48%	64%
Contra Costa	42%	52%	67%
Marin	52%	64%	79%
Napa	43%	52%	69%
San Francisco	44%	54%	70%
San Mateo	47%	58%	75%
Santa Clara	36%	46%	61%
Solano	43%	52%	69%
Sonoma	38%	50%	66%

Source: "Out of Reach", September 2000.
National Low Income Housing Coalition (www.nlihc.org)

Rising Overcrowding

Under-production of housing and rising housing cost burdens also result in overcrowded units. Overcrowded units are defined as those where the ratio of persons-to-rooms exceeds 1.0, with severe overcrowding in units where the ratio exceeds 1.5. Overcrowding is a problem across California, with numbers having doubled between the 1980 and 1990 census when about 1.2 million households (about 12.3 percent of total households) experienced overcrowded conditions. Overcrowding levels are also generally higher in lower-income households, and impact lower-income renters more than any other group (HCD, 1999).

The American Housing Survey of select California metropolitan areas showed that overcrowding had increased by about 13 percent for the period 1989-1995. However, overcrowding among renters went up by over 20 percent, while overcrowding among owners decreased by 6.7 percent. Metropolitan areas surveyed in the Bay Area (which include San Francisco/Oakland and San Jose) show less severe overcrowding than other metropolitan survey areas in California although San Jose showed a significant increase in overcrowded renter-occupied units in the period 1992-1996 (HCD, 1999).

Increased Commute Times and Distances

Since housing prices generally conform to some form of declining price gradient, a typical effect of underproduction is for prices to be lower at the fringes of an area. This generates a jobs-housing imbalance and substantially longer commute times for workers moving further out from job centers in search of affordable housing.

The dispersed development patterns that result will mean a 10 percent increase in average travel time to work in the period 1990-2020, and an estimated 249 percent increase in congestion measured as average daily vehicle hours of delay from 105,000 hours in 1990 to an estimated 366,000 in 2020 (Metropolitan Transportation Commission, 1999).

Sources

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